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PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING: DISCUSSION OF ACCOUNTING ISSUES ARISING DURING PRIVATIZATION, INCLUDING INDIVIDUAL COUNTRY CASE-STUDIES

Accounting problems arising during privatization in France

Report of the Secretary-General

SUMMARY

The Government of France began a series of actions in the 1980s which led to the privatization of some of its major State enterprises. The exercise was undertaken to improve the financial results of nationalized industries, which were a continuing burden on the economy, and to expand the country's capital markets. Privatization was achieved primarily through stock exchange flotations and sales of shares to employees. These methods required a large public relations effort to explain to citizens the motives of the Government in taking these steps. A great deal of planning and control was also required for the process to be executed efficiently. The most significant problem that arose was the selection of the most appropriate assumptions and bases to be used in the valuation of the enterprises. Bookkeeping and accounting issues

* E/C.10/AC.3/1992/1.

were minimal in most cases because commercial financial accounting systems are used by enterprises in France. Significant problems can arise, however, when components of enterprises are selected for transfer of ownership. Accounts and transactions are frequently interrelated among the various segments of a large enterprise, which makes them unrepresentative of the past operations or expectations for the future when used for evaluation of a component of the enterprise.

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I. OBJECTIVES OF PRIVATIZATION

1. The privatization programme, which got under way in France in 1986, was one of a series of important measures taken in the mid-1980s to strengthen the economy and change the structure and dimensions of the financial markets, bringing about, in effect, a financial revolution. In France, a country with a rigid legal structure and multiple economic controls, the financial framework had traditionally been dominated by regulation. This situation was aggravated by the nationalization of a number of industrial and financial groups which took place in 1981. Debt financing, through banking channels, was the usual method of raising capital, so capital market financing was underdeveloped and the stock market was weak in comparison with other modern industrial countries. In 1985, for example, the capitalization of the financial market was some 600 billion francs and the volume of its transactions valued at about 166 billion francs (Durupty, 1988, p. 34). Both the size and the volume of the French capital market were only about one quarter that of London's market. The volume was 17 times greater in Tokyo and 53 times greater in New York than the volume on the French stock market. The other European countries, in anticipation of the single European Community in 1992, had been engaging in large-scale deregulation of financial and banking services, with most attention being drawn to London's "Big Bang". France could not afford to be left behind.

2. Banking problems, largely associated with the 1982 Latin America crisis, international competition for capital and an expanding commercial interest in raising funds with a variety of maturities, stimulated the creation of new financial instruments and capital markets in France (Durupty, 1988, p. 22). The Banking Act of 1984, and related legislation, brought uniformity of regulation for all financial institutions. An extensive reform of the French Stock Exchange was put into effect in 1986, increasing competition by freeing fees and permitting the purchase of shareholdings by French and foreign financial institutions in accordance with an exact schedule. Also in 1986, a financial futures market (MATIF) was opened in Paris and, a year later, a negotiable option market (MONEF) was started. New instruments to meet the financing needs of banks, corporations and individuals came into use. These included the issuance of short-term negotiable certificates, denominated in either French or foreign currencies, by banks, commercial paper (billets de Trésorerie) issued by corporations, and notes (bons des institutions) issued by financial institutions.

3. The privatization programme, created by legislation passed on 2 July and 6 August 1986, 1/ was rooted in the denationalization policies of the new Government, which was voted into office at the beginning of the year. The principal privatization objectives, based on the denationalization principles, were:

(a) To improve the economic and financial performance of enterprises by guaranteeing management autonomy;

(b) To relieve the State Treasury from the weight of chronic deficits accumulated by certain public enterprises;

(c) To develop the financial markets and expand popular shareholding (actionnariat populaire) (Durupty, 1988, p. 33).

4. Despite affirmations of management autonomy in State-owned enterprises, government intervention was frequent. For example, the presidents of all the large banks were replaced in 1982 and one bank, engaged in international competition, had a succession of five presidents in five years appointed by the Government. Other public enterprises claimed that they were required to adopt various policies working against their own best interests in the period 1981-1986. These included rejecting acquisition investments, obligatory transfers of funds in restructuring processes that penalized prosperous enterprises, and being required to apply for outside funds rather than use internally generated resources. Removing government ownership was seen as the major way to make management responsive to the imperatives of the market and demands of the shareholders, rather than to the requirements of the oversight body. Privatization would also facilitate the adaptability needed under conditions of changing technologies and international competition.

5. The second privatization objective was aimed at providing budget relief in two ways: removing the necessity of subsidizing deficits and also benefiting from receipts from the sale of State assets. While it is difficult to calculate France's public sector borrowing requirement because, among other things, the social security system and various State agencies borrow on their own account, the public sector borrowing requirement probably approximates between 2.1 and 2.5 per cent of the gross national product which would suggest deficits of 129 billion francs in 1987 and 115 billion francs in 1988 (Durupty, 1988, p. 110). However, the effect of privatization proceeds, originally estimated at 30 billion francs for 1987, could have been assumed to be quite modest as a per cent of public sector borrowings. (As it happened, actual receipts were considerably higher: 70.8 billion francs for the two years 1986 and 1987.)

6. State enterprise deficits did not play a sizeable part in total State budget deficits either. The accumulated financial results for the 17 public industrial groups for the six years 1980-1985 showed that nine incurred deficits of 98 billion francs and eight had profits amounting to 39.74 billion francs. One group, Elf-Aquitaine, was the leading profit maker, while three groups were the loss leaders, as shown below (Durupty, 1988, p. 19):

Profitable companies	Amount (Billions of francs)	Per cent	Loss-incurring companies	Amount (Billions of francs)	Per cent
Elf-Aquitaine	28.50	72	Sacilor	27.30	28
Others (7)	11.24	28	Renault	26.90	27
Total	39.74	100	Usinor	26.30	27
			Others (6)	17.50	18
			Total	98.00	100

7. In keeping with the conventional wisdom that those State enterprises with the best financial condition should be the first to be privatized, Elf-Aquitaine was the first State enterprise to be put on sale (on 26 September 1986). This means, all other things being equal, that the State budget can expect no significant relief from State-owned enterprises' operating deficits until some passage of time when tax receipts start to come in from privatized enterprises and when some restructuring of the loss-incurring enterprises, to improve their financial operating potential, could be carried out.

8. One feature of the French privatization programme that has attracted favourable attention is its provision that privatization proceeds go into a separate government account. The proceeds can then be used, at the Government's discretion, for reducing the national debt and/or for subsidies to State-owned enterprises being restructured for eventual privatization, such as Renault, or for special infrastructure projects. The use of net receipts in 1987, and estimated for 1988, expressed in billions of French francs, was as follows (Les notes bleues, 1987, p. 4):

	1987		1988	
	Amount (Billions of francs)	Per cent	Amount (Billions of francs)	Per cent
National debt reduction	33.9	66	35	70
Capital assistance	17.5	34	15	30
Net receipts	51.4	100	50	100

9. While privatization programmes have been attacked from various sources and for various reasons, the fact that, generally speaking, Governments have been using privatization proceeds to cover government spending has drawn more emotional fire than most other issues. Because newly privatized companies are often in need of start-up capital, the French approach has been hailed by Letwin (1988, pp. 69-70), among others, as:

> "... [an] extremely ingenious decision ... This move, made right at the start of the privatization programme, has dealt effectively with all the attacks that would otherwise undoubtedly have arisen from commentators claiming that the French Government was selling the family silver ... Moreover, this policy has a serious economic rationale. By ensuring that the proceeds are devoted to the capital account, the French Government has prevented itself from using privatization as a means of masking increased public expenditure; the policy is therefore a self-constraining measure, of which any treasury or finance ministry would be proud."

10. The final privatization objective was to develop the French financial markets by expanding both domestic and foreign investment. This is linked to stimulating the interest of the general public in buying shares, in particular shares of the company by which they are employed. Under the previous Government, democratization of the public sector involved having the workforce represented as members of an enterprise's administrative council. The new Government sought to change the employee's perspective from potential adversary to become allied with the owners as fellow shareholders. The success of the United Kingdom with this policy, which involved special prices and payment terms for employees, was echoed in France. Between November 1986 and February 1988, 12 groups, accounting for 29 of the 65 enterprises selected for privatization, were transferred over to private ownership, in addition to the country's leading television station, TV1, and a bank, Caisse nationale de crédit agricole. Both employees and the public at large responded enthusiastically to the public share offerings (Bourdon and others, 1989, pp. 138-139). As shown in the table, at least 50 per cent of the employees in each of the 12 groups analysed purchased shares, while for three of the groups the participation was 80 per cent or better. The general public responded so enthusiastically that the available number of shares had to be reduced with each privatization operation. Public shares offerings after the stock market crash of October 1987, notably with respect to Suez, encountered significant difficulty. However, as the table shows, by November 1988 share prices had recovered to the point where most shareholders, except those of Sogénal and BTP, were experiencing holding gains.

11. The French privatization programme had drawn attention to and interest in the Paris Bourse and it probably had some influence in attracting investments. However, the programme was just one of several measures taken, plus there were two other factors that make evaluation of this objective difficult. One was the world-wide stock market declines of late 1987, the other was the fact that the privatization programme in general came to a halt when, in 1988, there was once again a change of Government.

Position of State enterprises privatized by February 1988

Enterprises and dates sold	Subscribers (in thousands)	Percentage of employees subscribing	Public offer price (POP) (in francs)	Prices (in francs) at 30 Apr. 1988 a/	Prices (in francs) at 15 Nov. 1988	Price at Nov. 1988 as percent of POP
Saint-Gobain 24 Nov. 1986	1 540	50.0	310	407.00	544.00	175.48
Paribas 19 Jan. 1987	3 810	50.0	405	350.00	454.00	112.10
Sogénal 9 Mar. 1987	850	78.5	125	92.50	110.00	0.88
BTP 6 Apr. 1987	1 030	88.0	130	129.00	120.00	0.92
BIMP 21 Apr. 1987	520	81.0	140	198.50	180.00	128.57
CCF 27 Apr. 1987	1 650	80.0	107	111.80	170.00	158.88
Havas 25 May 1987	730	55.0	500	540.00	715.00	143.00
CGE 11 May 1987	2 240	50.0	290	243.00	392.50	135.34
Sociéte générale 15 June 1987	2 300	69.0	407	280.10	524.00	128.75
TFI Autumn 1987	416	50.0	165	190.00	311.00	188.48
Suez Autumn 1987	1 600	60.0	317	226.80	317.50	100.16
Matra Winter 87/88	302	60.0	110	163.90	214.00	194.55

Source: French Treasury Report (December 1988), p. 19. Quoted by Reuters, 7 December 1988.

a/ 30 April 1988 was before the presidential election.

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II. PRIVATIZATION METHODS USED IN FRANCE

12. The financing methods specified by the privatization law follow two main types of processes. The first, which is used the most frequently, offers three possible ways of transferring ownership through the stock market: (a) through a public offer for sale, (b) through a public offer of exchange or (c) under the form of an increase in capital. The second way takes place outside the market through sale by private contract on an auction basis or through sale to the employees. During the period between November 1986 and July 1987, the beginning of the privatization programme, there were 10 groups or enterprises privatized, including the sale by private contract of the television station TV1, the net proceeds of which amounted to 45.6 billion francs. The distribution by source of financing is as follows (Longueville, 1987, p. 17):

	Amount (Billions of francs)	Per cent
Public offer for sale	24.0	52.6
Employees	4.3	9.4
Total (of which households account for FF 28 billion)	28.3	62.0
Outside the market	10.0	22.0
Total domestic	38.3	84.0
Overseas	7.3	16.0
Total net proceeds	45.6	100.0

A. Public offer for sale

13. Sale at a fixed price has several advantages of simplicity of procedure, transparency and flexibility. The Minister for the Economy, Finance and Privatization sets the price per share after receiving a recommendation from the Privatization Commission and the purchase price is known to the buyers, although not the way in which the Minister arrived at the amount. All the operations are centralized through a neutral body: the Stockbrokers' Chamber (Chambre syndicale des agents de change) which guarantees openness and fairness in the procedure. Lastly, the number of shares offered versus the number of shares subscribed for is evaluated and some equivalence established, so the process is somewhat flexible. Also, the law of 6 August 1986 provides that, under certain conditions, natural persons of French nationality, or French residents, may have priority with respect to share subscriptions. Thus, orders for shares can be sorted into categories based on available priorities.

14. The techniques used in selling shares by public offer during the period 1986-1988 were as follows. The State notified the general public of the terms of the offer by way of a notice published in the official quotations of the

Company of Stockbrokers (Compagnie des agents de change). This was then widely published by the Press and financial intermediaries. The usual offer period ran for two weeks and offers were submitted to the financial houses, which forwarded them to the Chamber. This centralization of orders made it possible to determine exactly how many shares were being subscribed for.

15. The State took several steps to enhance the possible success of the sales. First, it bore the costs connected with acquiring shares, in effect giving up the value-added and stamp revenue receipts. For the Saint-Gobain sale, the State saved about 173 million francs by negotiating with the banks to lower brokerage costs and the usual 2 per cent commission for periods in which they hold shares in trust (Durupty, 1988, p. 70). Another measure was a publicity campaign with two phases: the first, informing the public about the activities of the enterprise to be privatized, and the final phase, conditioning public opinion in favour of subscribing. The media were widely used at the beginning of the privatization programme. However, once it became evident that the programme was going well, the publicity budgets were cut back. To encourage employee participation in the share offerings, the enterprises themselves engaged in internal publicity activities using various media such as video films and in-house information pamphlets.

16. After subscriptions closed, the Chamber proceeded with the publication of the results of the offer and the ground rules for filling the orders, including reductions that would be made in orders as a result of oversubscription. As further public offerings led to further oversubscription, the State modified the conditions for attributing shares to subscribers, such as drawings by lot, or decreasing the nominal value of shares in order to increase the number of available shares proportionately. The shares were then registered.

B. Public offer of exchange

17. This technique consists of allowing subscribers to exchange investment certificates (certificats d'investissements) and participating shares (titres participatifs) for shares in the privatizing company. These instruments, which do not convey the right to vote and which have priority rights to dividends, were issued by nationalized industries after they had been permitted by the Delors law of 1983 (Law No. 83-1 of 3 January 1983) to draw on public savings for funding needs.

C. Increase in capital

18. This technique, which was used for Sogénal, CGE and Rhône-Poulenc, allows an enterprise to increase its capital, when the State is also a shareholder, without, however, permitting the State to exercise its preferential right to subscribe for the additional shares. In certain cases, such as that of Sogénal, the State may subscribe for additional shares in order to resell them by public offer and thereby increase the privatized company's funds.

D. Sale by private contract through auction

19. This approach was specified in Law No. 86-793 of 2 July 1986, which allowed transfer of ownership, and Law 86-912 of 6 August 1986 and the application methods defined in the decree of 24 October 1986 (Decree No. 86-1140). Basically, it consists of the sale of enterprise shares at a fixed price as well as a sum that may vary depending on enterprise operations. There can be either a total or a partial transfer of shares, but in the greatest number of cases a partial transfer has been employed. The procedure is the same in both instances but the objectives for each are different. In the case of a partial transfer, the State is interested in assuring the stability of that part of the shareholder body that will be controlling the enterprise. This stable group, which became known as the "hard core" (noyeau dur), is nominated by the State, which led to considerable criticism of the Government for perceived favouritism. A partial transfer is then linked up with a public offer for sale in a subsequent phase.

20. In the case of a total transfer, on the other hand, the choice of the purchaser will have a strong bearing on the potential for the enterprise. Among the State's considerations are the professional and financial abilities of the would-be purchaser(s) versus the industrial strategy of the group to be privatized, as well as the market characteristics in which it is positioned and its market potential.

21. The procedure followed during the privatization programme was the same for both partial and full transfers. The first phase was that of audit and valuation and submission of recommendations to the Privatization Commission. The Commission then gave its opinion to the Minister for the Economy, Finance and Privatization, who, in the case of a partial transfer, determined the percentage of the capital to be reserved for the auction sale. This percentage constituted the maximum that could be modified at the time of examining the offers. This was generally set at 20 to 30 per cent, but was set at 50 per cent in the case of the auction sale of TV1 (Durupty, 1988, p. 75).

22. The bidders obtained details of the financial condition of the operation from the specifications (Cahier des charges) obtainable from the Treasury. These generally provided for the payment of a premium, calculated as a percentage of the price of the shares to be offered by public sale, and was a variable amount - usually about 5 per cent. The second part of the document dealt with the offers to purchase. The subscribers set out their offers and responded to a questionnaire in which they described their perspectives on the future prospects for the company. The third part had to do with the choice of candidate(s) and established a pre-selection procedure, allowing candidates a certain time period to confirm or retract their offer after being advised of the price of shares for public sale. In addition, there was information about the payment terms, the fact that transferability of the shares would be frozen for two years, the applicable contract law, and the competent jurisdiction in case of litigation.

E. Purchase by employees

23. French interest in sales to employees was sparked by the success of leveraged management buy-outs in the United States and the United Kingdom and a three-stage procedure was developed. In the first stage, a holding company is created, with at least 50 per cent of the voting rights reserved for those employees interested in buying shares. The remaining capital is usually taken up by banks or other financing groups. During the second phase, the holding company proceeds with the resale of the enterprise to the employees, holding back at least 50 per cent of the voting rights. This is usually financed by loans subscribed for by the holding company and guaranteed by banks. In the last phase, the holding company receives dividends from the enterprise which the holding company uses to pay off the loans.

III. IMPLEMENTING THE PRIVATIZATION PROCESS

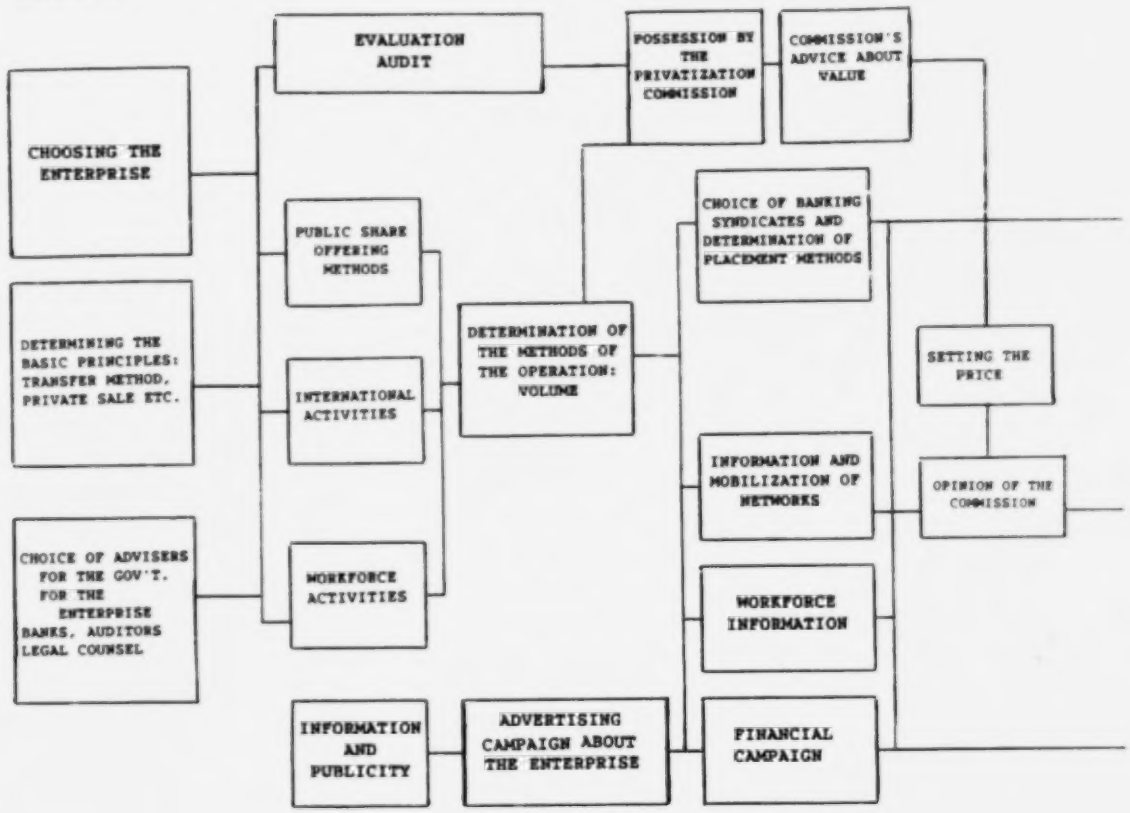
24. One of the keys to implementing a privatization operation successfully is careful planning and control of the process, particularly when so many participants are engaged. The fact that 10 privatizations were successfully concluded during the first year of France's programme attests to the fact that the Ministry of the Economy, Finance and Privatization had expedited the process efficiently.

25. The Ministry's implementation strategies are described in Les notes bleues (1987), which contains a programme evaluation and review technique (PERT)-chart type calendar of events showing the principal activities carried out by the seven groups involved and the related due (deadline) dates, with the entire process timed to take four and one half months for each privatization. A simplified version of the calendar is presented in the figure, which contains flow charts of the main activities carried out in the three phases of a privatization project: (a) making the major preparatory decisions and arrangements; (b) carrying out studies and making necessary and technical arrangements; and (c) carrying out the transfer of ownership.

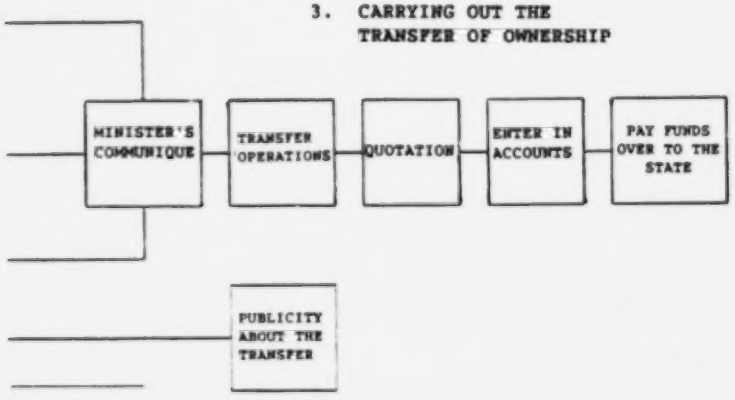
Implementing a privatization operation

1. MAJOR PREPARATORY DECISIONS

2. STUDIES AND TECHNICAL AND LEGAL PREPARATIONS


EVALUATION AUDIT
POSSESSION BY THE PRIVATIZATION COMMISSION
COMMISSION'S ADVICE ABOUT VALUE
CHOOSING THE ENTERPRISE
PUBLIC SHARE OFFERING METHODS
CHOICE OF BANKING SYNDICATES AND DETERMINATION OF PLACEMENT METHODS
DETERMINATION OF THE METHODS OF THE OPERATION: VOLUME
DETERMINING THE BASIC PRINCIPLES: TRANSFER METHOD, PRIVATE SALE ETC.
INTERNATIONAL ACTIVITIES
SETTING THE PRICE
INFORMATION AND MOBILIZATION OF NETWORKS
OPINION OF THE COMMISSION
CHOICE OF ADVISERS FOR THE GOV'T. FOR THE ENTERPRISE BANKS, AUDITORS LEGAL COUNSEL
WORKFORCE ACTIVITIES
WORKFORCE INFORMATION
INFORMATION AND PUBLICITY
ADVERTISING CAMPAIGN ABOUT THE ENTERPRISE
FINANCIAL CAMPAIGN

3. CARRYING OUT THE TRANSFER OF OWNERSHIP



Source: Michael Durupty, Les privatisations en France (Paris, La documentation française, 1988), pp. 62-63.

A. Preparatory phase

26. The first phase consists of selecting the candidate for privatization and the appropriate financing method. This was carried out at the ministerial level in advance of the operations calendar. The calendar starts when the Minister for the Economy, Finance and Privatization makes a public announcement of the planned privatization. In France, the Minister personalized this process by television and radio appearances as well as press conferences in order to broaden public appeal. At the same time, offers to bid are issued for banking and auditing counsellors, with both French and foreign firms competing for appointments. The responding bidders submit their proposals on official forms to the Director of the Treasury. The proposals are then forwarded to a selection committee, which makes its recommendations to the Minister.

27. The bankers and auditors have quite distinct and separate duties, although they work in close cooperation with each other. The auditors examine the latest consolidated balance sheet and statement of results, as well as the accounting principles used in their construction, and also evaluate the increases or decreases in net assets arising from any revaluation. In carrying out this work, they should, to the extent possible, have close contact with the enterprise's other auditors, if any, and use the work already performed by the statutory auditors (commissaires aux comptes) and inspectors (commissaires-controleurs) with whom they share the same investigative rights and confidentiality obligations. To stress auditor independence, auditing firms were not considered if they had an auditing engagement with the privatizing company during the prior three years in which the audit fees exceeded 15 per cent of the privatizing company's total external audit budget, whether in France or elsewhere. Fees for privatization audits can be substantial and there was keen competition in France, particularly among the international firms. This caused concern among the local French firms and caused a modification in the selection process, which then provided for two auditing firms to be selected for each engagement by adding a French firm in the case that an international firm was also chosen (SIC, 1988 b, pp. 17-19).

28. The investment bankers' task is to prepare an initial evaluation of the privatizing company using the broad principles laid down in article 3 of the privatization law. The principles include the use of objective accounting methods currently practised for this type of operation; appropriate consideration of the market value of shares, which the privatizing company, or a similar company if one exists, may have already issued, in comparison with the value of the net assets; the company's profitability; the existence, if any, of subsidiary companies; and future potential and prospects.

29. A major problem is that the valuation of an enterprise can vary depending on the type of financial analysis used in the calculation. In 1987, for example, the French Press published seven different possible evaluations of Paribas, as follows (Durupty, 1988, p. 66):

Evaluation bases	Amount (Billions of francs)
Rate for redemption certificates during the last trimester of 1986	21.5
Dividend paid	19.4
Revaluated net assets	19.6
Price/earnings ratio	17.9
Direct participation	17.7
Price/net assets ratio	17.6
Valuation by stockbrokers at 430 francs per share	20.5

30. These variations complicated the task of the Privatization Commission, which later submitted its recommendations for sales value to the Minister.

B. Intermediate operations

31. The second phase of the privatization operation starts in the third week of the plan, after the selection of the auditors and investment bankers, with the convening of the Privatization Commission. In the meantime, the company to be privatized selects the publicity firm to start drawing up the campaign project. During the next month, the auditors and investment bankers complete their assignments. The auditor's report goes to five different users: the Minister for the Economy, Finance and Privatization, the audit client, the banks, the Privatization Commission and the Exchange Commission. The investment bankers' report goes to the Minister and the Privatization Commission - the latter having already been furnished with an earlier interim report.

32. The Privatization Commission was created as a government strategy to emphasize the objectivity of the evaluation process and to set up a buffer between the Minister and the ultimate purchasers for negotiation purposes. The French Commission was composed of seven members, nominated by decree for five-year terms, and selected on the basis of their expertise in economic, financial or legal affairs. The Commission's president was a former Minister, member of the Council of State, member of the Constitutional Council and president of the Securities Commission (Baudeu, 1987, p. 57). Of the remaining six members, two had been presidents of state-owned enterprises about to be privatized and therefore knew their operations very well; two others had held high positions in finance and banking; one was president of the commission for auditing the accounts of public enterprises; and one was a professor of law. All were constrained to professional secrecy and were not permitted, under the penal code, to have any direct or indirect managerial function with respect to the privatizing companies. This prohibition had a five-year retroactive application.

33. After consulting behind closed doors, the Commission recommended a floor price for the sale of shares, or assets, as the case may be, to the Minister for the Economy, Finance and Privatization. In the case of Paribas, described earlier, where valuations ranged between 17.6 and 21.5 billion francs, the

Commission's floor recommendation was set even lower at 17.5 billion francs. The Minister did not disclose how he arrived at his decision concerning the final sales price. However, it was soon evident that pricing low to enhance potential sales was a major strategy since the Commission's floor price recommendations were published to provide an extra measure of public confidence in the fairness of the offer. This resulted in the so-called "premium effect" as the first rates quoted after the fixed offer price was announced were higher, as shown below, for the first eight groups privatized (Longueville, 1987, p. 12 and Durupty, 1988, p. 67):

	Public offer price (FF)	First quoted price (FF)	Premium	
			Amount	Per cent of
Elf-Aquitaine	305	320	15	4.92
Saint-Gobain	310	369	59	19.03
Paribas	405	480	75	18.52
Sogénal	125	225	100	80.00
BTP	130	176	46	35.38
BIMP	140	170	30	21.43
CCF	107	125	18	16.82
CGE	290	323	33	11.38

34. In the short run, share sales will be stimulated by the expectation of rapid premiums, but, with the exception of Sogénal and possibly BTP, the premiums were somewhat modest. As shown earlier, in the table in section I, the public offer price for Sogénal was a more conservative predictor of longer-run values than the first quotation, since Sogénal share prices had plunged to 110 by November 1988. However, the longer-run share values support initial criticisms of underpricing.

35. By the middle of the third month of the plan, the Ministry fixes share prices, or selects the hard core of shareholders, as the case may be, and announces the details of the public offering. The Securities Commission will have completed its examination of the documents filed and made the preparation for the stock listings; the Privatization Commission will have completed its work; and the investment bankers will be sending out information, usually by telex, to their own agencies and other bankers world wide. In the meantime, the publicity campaigns will be proceeding within the enterprises and through the national and international media.

36. In determining the availability of shares, the Government of France set certain limits of control for preventing possible shareholder monopolies, protecting the national interest and allowing preferential treatment for employees, French nationals and French residents in order to achieve the objective of building up public shareholding interest (Baudeu, 1987, p. 5). To try to prevent shareholder monopolies, no physical or legal person could

acquire more than 5 per cent of the shares offered, if the Minister so determined. However, this limitation could only be put into effect in the case of the initial sale and no provisions were made for indirect acquisitions. Consequently, those interested in larger investments were not constrained in the longer run. Sales of shares to foreign physical or legal persons, or those under foreign control, could not exceed 20 per cent of the company's capital. This threshold had been raised from 15 per cent in anticipation of possible problems being raised by the Court of Justice of the European Community (EC) over access to shares by EC members. The State also reserved for itself the right to transform any ordinary share it held or acquired into a "specific" share, on the model of the United Kingdom's "golden" share, giving the Government certain powers to protect the national interest. This mainly consisted of allowing the Government to authorize investments in excess of 10 per cent by one person or by a group of persons acting collectively, but this privilege was rarely invoked, as in the privatization of Bull, Elf, Havas and Matra, for example (Longueville, 1987, p. 10).

37. Employees benefited from a special allocation, a special price, and the possibility of deferred payments. The work force was entitled to buy up to 10 per cent of the shares of their company, limited, however, in amount to five times the annual ceiling of social security contributions. Price rebates, up to a maximum of 20 per cent, could be granted, and deferred payments for a period not to exceed three years could also be authorized. If the price rebate exceeded 5 per cent, however, employees were obliged to maintain ownership for a specified period, which was generally two years. Also, shares were not transferable before they were fully paid for. As an additional incentive, the State could grant one free share for every 10 shares purchased, but a time-limit of one year was imposed for holding purposes. Non-employee French citizens or residents were given priority to acquire up to 10 shares each, and the Government could also grant free share distributions and allow deferred payment arrangements.

38. As an additional incentive, the privatization law of 6 August 1986 allowed partial payment in securities rather than cash. Up to 50 per cent of the total of each acquisition could be paid for using bonds issued by the State. Other securities that could be used for such purposes were the investment certificates or participating shares previously issued by State enterprises under the 1983 law referred to earlier.

C. Transferring ownership

39. In the final phase of the programme, the share subscriptions are centralized, the Minister for the Economy, Finance and Privatization announces the results, the results are published by the stock exchange authorities and the first market quotations are issued. The investment banks are notified of the number of shares allocated, and the names of the new owners are entered in the stockholders' ledger. Some two weeks later, that is, after about four and one half months have elapsed from the date of the first announcement, transfer of ownership is complete as the State withdraws its oversight from the new

company, the shareholders pay balances owed and the funds are transmitted to the State. All that is left is for the newly privatized company to organize the first general meeting of shareholders.

IV. IMPLICATIONS OF PRIVATIZATION FOR ACCOUNTING

40. The main thrust of France's privatization programme involved major industrial and financial groups or enterprises operating in competitive national or international environments. As State-owned enterprises, they followed the appropriate charts of accounts required by the Government and they had to abide by the accounting auditing and reporting regulations of the various national and international stock markets, particularly if they had issued securities under the provisions of the 1983 Delors Act. Consequently, there were few implications for the accounting function of a transfer of ownership of a State enterprise.

41. A different situation arises if the activity being privatized was previously carried out under a different form of organization from that of a legal corporation. In the late autumn of 1990, for example, the Government of France began splitting up its postal and telecommunications services, which were operated as a combined activity using governmental rather than commercial accounting. A major international firm engaged for this purpose had to employ some 50 staff members to segregate transactions and re-book telecommunications activities in accordance with the national chart of accounts (plan comptable), leaving the cash-based system for the postal services. The United Kingdom, on the other hand, has required the use of commercial accounting by its separate postal and telecommunications services, so it had no particular system-design problems of an accounting or reporting nature with the telecommunications privatization, nor should it have any with the proposed privatization of the postal services, which is on the present Government's agenda.

42. Insight into the problems of implementing a completely different accounting system can be gained when the legal form of organization is changed, as in the case of the Paris water department. 2/ Faced with large operating deficits, the inability to raise water fees and the urgent need for investment funds to renew and replace facilities, some of which dated back to Roman times, the city decided to farm out its operations privately for a fixed fee. This arrangement took the form of a joint venture, organized as a limited liability company (SARL), in which minority interests were held by two major French water companies. The existing accounting staff had little or no knowledge of commercial accounting so a considerable number of computers were purchased for their use and they were restricted to recording only those transactions that were properly classifiable as outlays under class 6 of the national chart of accounts. All other transactions were recorded by a small group of experienced accountants, who had to be hired for this task, under the direction of a chief accountant with considerable experience in accounting system design and operation. For the first few months, this central group corrected the numerous errors in class 6 accounts when the monthly accounting reports were returned from the firm providing outside computer services. As

the class 6 accountants gained a little working experience, they were required to help with the monthly correction of errors. This practice was of further assistance in cutting down on the rate of errors. By the end of the first year, errors took a few hours rather than several days to correct and the class 6 accountants were ready to expand into other classes of accounts.

43. This case-study demonstrates the usefulness of standardized charts of accounts in situations where accounting staffs have to be trained and need considerable direction and supervision. Because the charts are standardized in France, it takes less time for new accounting personnel to familiarize themselves with a company's bookkeeping system. Also, the availability of detailed instructions, which are a part of the national system, decreases ambiguity and the need to seek a supervisor's advice about how to record transactions. Consequently, the French system can prove valuable in situations where there is low tolerance of ambiguity and a high need for structure - such as exists when new accounting systems are being installed for the first time.

44. The French experienced relatively few problems during the privatizations carried out to date because of the uniform accounts systems referred to above; few companies were being privatized; there was careful planning in the preparatory phase; and the programme was carried out slowly and thoughtfully. The most significant problem was the wide variations in the valuation of the enterprises that result from the use of different assumptions in making the calculations.

Notes

1/ Laws Nos. 86-793 and 86-912, Journal officiel de la République française (3 July 1986), pp. 8240-8241, (7 August 1986), pp. 9695-9697.

2/ Details were supplied by M. Claude Cornuau, the director of the joint venture, who designed and supervised the accounting information system and its implementation.

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